

LNG Community Impact Mitigation Global Overview

Municipal Advisory Group Meeting
1 July 2015

Agenda

- Setting the scene
 - Types of impact and benefit agreements in general
- Pros and Cons of different forms of compensation
- Case Studies
 - Australia (Social Impact Mitigation Plans -SIMPs)
 - Canada (Impact and Balancing Agreements - IBAs)
- Further resources

High-level Takeaways

- Difficult to benchmark in \$\$ terms around the world
 - Qualitative benefits are as prevalent around the world as quantitative benefits
- Noteworthy differences exist internationally for fixed fee vs per unit payments
- Project sanction is not necessarily required ahead of impact fee finalization
 - In British Columbia, Petronas' Pacific Northwest project has moved ahead with an IBA after reaching a conditional investment decision
- Procedural aspects of impact mitigation are very important
 - Participation fees
 - Baseline surveys
 - Monitoring and evaluation

Setting the scene

- Oil and gas projects (as well as mining) have a long history of implementing community impact mitigation measures
 - For LNG, this is a relatively new field
- The guiding principle for community impact mitigation is
 - To compensate local governments for the impact of resource development on *local land and livelihoods*
 - To enable local governments to *share in the benefits* flowing from the development of their land

Setting the scene (continued)

- Implications of financial benefits (covered later)
- Even though local impact fees are common, benefits may be extended to non-financial areas
 - Employment & training
 - Community development initiatives
 - Environmental or heritage conservative
- Well-documented history of impact fee processes in Alaska
 - History of SGDA Impact Fee methodology and previous work
 - FERC / NEPA process

Pros and Cons of Different Forms of Compensation

In broad terms, there are five main types of financial compensation seen internationally

- Fixed payments
- Royalty based on volume
- Royalty based on value
- Royalty based on profits
- Equity stake in project

As a general rule, this is about balancing short-term vs long-term interests (fixed fees lead to long-term, stable income, profit-based fees could lead to short-term windfalls)

Pros and Cons of Different Forms of Compensation

Compensation	Pros	Cons
Fixed fees	<ul style="list-style-type: none"> - Guaranteed, stable income - Simple 	<ul style="list-style-type: none"> - Community not exposed to windfall / benefits in scale (production growth, price increases) - Unpopular with operators
Royalty based on volume	<ul style="list-style-type: none"> - Payments rise as project grows - Funds are in principle proportional to community impact - Not dependent on price 	<ul style="list-style-type: none"> - No upside - No benefit from cost control
Royalty based on value	<ul style="list-style-type: none"> - Upside - Independent of project profitability (and costs) - Simplicity 	<ul style="list-style-type: none"> - Volatile - Need to take into account all costs
Royalty based on profits	<ul style="list-style-type: none"> - Upside includes incentives for cost control 	<ul style="list-style-type: none"> - Project may be unprofitable - Commodity price volatility - Cost recovery must be audited - Delayed cash flow
Equity	<ul style="list-style-type: none"> - Windfall upside - Can directly impact decision-making (particularly as regards local impact) 	<ul style="list-style-type: none"> - Exposure to capital cost risk - Investment risk - Volatility risk - Legal liabilities - Delayed cash flow

Case Studies: Australia

- **What is the process?**

→ SIMP (Social Impact Management Plan)



Case Studies: Australia

- **What are projects that include the participation of AK LNG shareholders?**
 - Gorgon LNG (ExxonMobil 25%), \$54 bn, 15 mmtpa
 - North West Shelf Venture LNG (BP 16.7%), completed 1989, 16.3 mmtpa, \$50 bn total spend
 - Darwin LNG (ConocoPhillips 57%), 3.7 mmtpa, \$1.5 bn capital spend
 - Australia Pacific LNG (ConocoPhillips 37.5%), 9 mmtpa, \$25 bn capital spend

Case Studies: Australia

- **What are some selected properties of SIMPs / impact fees?**

→ Browse LNG* SIMP included the following measures:

- Estimated \$1 bn in financial benefits
- Benchmark of 300 local jobs
- \$1.3 mn a year paid to local education
- \$1.3 mn a year paid for local training
- \$5 mn in procurement contracts annually dedicated to local business
- Title Holder payments:
 - \$18 mn for local communities based on project milestones
 - \$3.6 mn per year property tax
 - \$4 mn a year to regional benefits fund
 - \$4 mn a year additional to fund based on exceeding volume targets

**Browse LNG has been indefinitely postponed by Woodside*

Case Studies: Australia

- **What are some selected properties of SIMPs / impact fees?**
- Queensland regional SIMPs include the following measures:
 - Benefits to communities where gas pipeline traverses are calculated on a per-kilometer basis (annual payments)
 - 2005: \$1,000-\$2,000 per kilometer (\$625-\$1,250 per mile)
 - 2007: \$2,000-\$4,000 per km (\$1,250-\$2,500 per mile)
 - 2011: \$5,000-\$8,000 per km (\$3,125-\$5,000 per mile)

Case Studies: Australia

- **What are some selected properties of SIMPs / impact fees?**
- Australia Pacific LNG SIMP includes the following measures:
 - (Qualitative) Facilitate provision of housing for labor force
 - Indigenous Engagement Strategy and Local Content Strategy mandate workforce training and hiring
 - Land Use and Land Access Plan outlines local communication requirements (engaging landowners)
 - Creation of Community Grievance Mechanism

Case Studies: Canada

- **What is the process?**

→ IBA (Impact and Benefit Agreement)

In Australia mandated at regional level, in Canada at Federal level



Case Studies: Canada

- **What are projects that include the participation of AK LNG shareholders?**

→ WCC LNG (30 mmtpa)

Under development by ExxonMobil subsidiary Imperial Oil

No FID reached; Received 25-year export permit March 2014

Case Studies: Canada

- **What are some selected properties of IBAs?**

- WCC LNG

- Project partners will pay City of Prince Rupert \$18 million over two-years (feasibility study for construction)
- Funds paid directly to Prince Rupert Legacy Ltd
- WCC LNG has already paid a \$1 million non-refundable deposit on the transfer of title to Prince Rupert Legacy Inc., and will pay another \$7 million within 30 days of zoning of the site and an additional \$10 million by October 2015.

Case Studies: Canada

▪ **What are some selected properties of IBAs?**

Impact agreements for Pacific Northwest LNG (\$11 bn, 20 mmtpa)

→ With Port Edward Community (550 people)

- Undisclosed terms of IBA cover
 - Access to employment
 - Trainings, capacity development
 - Financing for cultural support
 - Local Community *participation in ongoing environmental impact monitoring*

→ Metlakatla Governing Council

- December 2014: term sheet for IBA signed, includes a signing bonus (1-time payment)
- Total value (rumored): \$152 million in property taxes over 25-year period

→ Lax Kw'alaams

- \$1.15 bn transfer payment over 40-year period voted *against* by community representatives (May 2015)

Case Studies: Canada

- Known in-kind benefits to Metlakatla Community (various LNG projects)

Project Completed: Health Centre

Metlakatla's new Health Centre will service residents for generations to come. The Centre is fully equipped with a kitchen, an on-staff nurse, and all of the modern amenities.



Project Initiated: Sports Field

Metlakatla Recreation Department and our contractor partners have now completed a new skate park and sports field in Metlakatla Village. Construction on the skate park and field was completed in August, and we are currently working towards completing a covered recreation area for community events.



Project Completed: Emergency Response Vessel

Metlakatla has recently purchased an emergency boat to transport community members into neighbouring Prince Rupert for emergency medical care. The "Metlakatla Guardian" is a full-time dedicated transport vessel that will be moored at the new dock in Metlakatla with dock space reserved in Prince Rupert. The new boat will significantly minimize risks to residents by providing safe and accessible transport during an emergency.



Source: Metlakatla Governing Council

Case Studies: Canada (cont.)

- **What are some selected properties of IBAs?**
 - WoodFibre LNG (2.1 mmtpa project, \$1.7 bn CAPEX)
- As part of its export approval (Section 2.6 on Project Benefits), WoodFibre LNG committed to developing the following
 - Local Hiring Strategy
 - Local Training Strategy
 - Regional Procurement Strategy
- Local governing board (Squamish First Nation Council) moving forward with its own, independent EIA because it disputed WoodFibre's EIA conclusions, concerning fishing economy in Howe Sound

Case Studies: Canada (cont.)

- **What are some selected properties of IBAs?**

- Bear Head LNG

- LNG Limited is developing Bear Head LNG, to convert a planned regasification facility into an export facility
- Existing \$3 million per year property tax deal with County of Richmond (Cape Breton) governs old facility
- Canaport LNG receiving facility has 25-year deal with Saint John for \$500,000 per year
- Facility conversion would trigger renegotiation of royalty deal

Common Themes

- Community Scoring Initiative (surveys) shows primary local impact concerns are Environmental Protection (1st), Community Safety (2nd), and Local Jobs (3rd)
- In Australia and Canada, it is common to have hybrid financial compensation
 - Mix of fixed payment and project milestone-based payments
- As negotiating partners, IOCs typically prefer in kind benefits (reputational benefits) vs cash flow adjustments
- Key to success is local community monitoring and evaluation to ensure implementation
- Some communities opt for independent impact assessments for baseline determination

Resources for Further Inquiry

- Canada: *Impact and Benefit Agreement Community Toolkit: Negotiation of Impact and Benefit Agreements*, 2010. (Commissioned by the Walter & Duncan Gordon Foundation)
- The World Bank: *Innovative Approaches for Multi-Stakeholder Engagement in the Extractive Industries*, 2013. (Commissioned by GOXI)
- Australia: Social Impact Management Plans available directly from State Development Departments (e.g. Queensland for Australia Pacific LNG)